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MEMORANDUM

June 15, 2017

TO: The Chair and Members of the Commission

FROM: Joshua Bowman, Public Utility Analyst

SUBJECT: In the Matter of the Application of Tidewater Utilities, Inc. for the Approval of the Semi-Annual Adjustment to the Distribution System Improvement Charge (DSIC) Pursuant to 26 Del. C. § 314 (b) (5) (Filed November 19, 2015) – PSC Docket No. 15-1576

In the Matter of the Application of Tidewater Utilities, Inc. for the Approval of the Semi-Annual Adjustment to the Distribution System Improvement Charge (DSIC) Pursuant to 26 Del. C. § 314 (b) (5) (Filed May 20, 2016) – PSC Docket No. 16-0656

On November 19, 2015, Tidewater Utilities, Inc. ("Tidewater" or the "Company") filed an application to reset their Distribution System Improvement Charge ("DSIC Rate") from 0.37% to 1.06% with an effective date of January 1, 2016. This DSIC Rate was based on net plant additions of \$1,284,391 placed into service between May 1, 2015 and October 31, 2015, along with an associated semi-annual depreciation expense of \$9,521.

On December 15, 2015, by way of PSC Order No. 8833, the Commission opened Docket No. 15-1576 that approved the request by the Company to reset the DSIC Rate, subject to annual review, audit and reconciliation to be performed by Staff based on the 12-month period ending December 31, 2016.

On May 20, 2016, Tidewater filed an application to reset its DSIC Rate to 1.90%, with an effective date of July 1, 2016. This increase was based on net additional plant of \$1,514,086 placed into service between

November 1, 2015, and April 30, 2016, along with an associated semi-annual depreciation expense of \$18,049.

On June 28, 2016, by way of PSC Order No. 8904, the Commission opened Docket No. 16-0656 that approved the request by the Company to reset the DSIC Rate, subject to annual review, audit and reconciliation to be performed by Staff based on the 12-month period ending December 31, 2016.

On March 24, 2017, and April 21, 2017, the Commission Staff ("Staff") received the requested information for Docket Nos. 15-1576 and 16-0656 and conducted the audit and review of the DSIC Rates. The audit consisted of the procedures utilized for each of the water companies undergoing annual DSIC Rate audits. The audit concentrated on the three major components of the DSIC Rate; namely, Rate Base, Rate of Return, and Depreciation.

Findings for PSC Docket No. 15-1576: Effective Period January 1, 2016 – June 30, 2016

Associated with the Rate of Return is the revenue that the Company collected within the DSIC period. Staff reviewed a sampling of customer bills from the effective time period to determine if the billing accurately reflected the DSIC Rate component. No discrepancies were found.

During the effective time period for this Docket, the Company collected \$131,871 in DSIC revenues. This resulted in an under-collection of \$16,664 of the semi-annual revenue requirement for this period.

Staff then reviewed the Rate Base Components of the DSIC Rate calculation. The plant additions were reviewed for conformity to the requirements of the legislation. Plant additions were traced by project and by account to the work orders and then to the general ledger. The Capital Expenditures Authorizations and Retirement Work Orders were reviewed to ascertain that appropriate expenditures were included in the Rate Base components of the DSIC Rate. Staff believes that the plant portions of the DSIC Rate calculation to be accurate.

Finally, Staff tested the Semi-Annual Depreciation Expense component of the DSIC Rate. The total depreciation as calculated by the Company agreed with the amount posted to the General Ledger, and the rates were the ones approved by the Commission. Therefore, Staff recommends that the DSIC Rate of 1.06% in effect from January 1, 2016 through June 30, 2016, be approved as final.

Findings for PSC Docket No. 16-0656: Effective Period July 1, 2016 – December 31, 2016

Similarly to Docket No. 15-1576, Staff reviewed a sampling of customer bills from the effective time period to determine if the billing accurately reflected the DSIC Rate component. No discrepancies were found.

During the effective time period for this Docket, the Company collected \$298,098 in DSIC revenues. This resulted in an over-collection of \$24,710 of the projected revenue requirement.

Staff then reviewed the Rate Base Components of the DSIC Rate calculation. The plant additions were reviewed for conformity to the requirements of the legislation. Plant additions were traced by project and by account to the work orders and then to the general ledger. The Capital Expenditures Authorizations and Retirement Work Orders were reviewed to ascertain that appropriate expenditures were included in the Rate Base components of the DSIC Rate. Staff believes that the plant additions portion of the DSIC Rate calculation to be accurate. However, during the review of the Retirement Reports and the Accumulated Depreciation Reserve Change Schedule, it was discovered that the Company had understated the total retirement costs associated with the meters that were replaced. Tidewater included an explanation of this understatement of retirement costs¹. The Company's filing included an estimated \$9,610 in retirement costs relating to the meter replacement program. The actual retirement costs for the meters replaced as part of this DSIC filing is \$169,414. Staff discussed with Tidewater and recommended that the Company revise its pending DSIC Rate application, PSC Docket No. 17-0330 to account for the \$159,804 difference.

Finally, Staff tested the Semi-Annual Depreciation Expense component of the DSIC Rate. The total depreciation as calculated by the Company agreed with the amount posted to the General Ledger, and the rates were the ones approved by the Commission. Therefore, Staff recommends that the DSIC Rate of 1.90% in effect from July 1, 2016 through December 31, 2016, be approved as final.

The total over-collection of DSIC Revenue for the two DSIC Rate periods defined in PSC Docket Nos. 15-1576 and 16-0656 after completion of the audit and review was \$8,046. This over-collection will be reconciled in the Company's currently pending DSIC Rate application, PSC Docket 17-0330.

On June 5, 2017, Tidewater submitted a revised copy of their pending DSIC Rate application, PSC Docket No. 17-0330, showing the adjustments made accounting for the understated Retirement Costs.

Staff has shared its findings with the Company and both parties are in agreement. Therefore Staff recommends that PSC Docket Nos. 15-1576 and 16-0656 be closed.

¹ Tidewater explained that the original estimate of \$9,610 in retirement costs for the meters replaced under the meter replacement program was inaccurate. Tidewater further explained that due to the timing of purchasing replacement meters and the staging, installing and post-removal testing by its outside contractor, they utilized the scheduled list of replacement meters as the estimate for purposes of reducing the Utility Plant account in the calculation of the DSIC Rate. Tidewater stated that they are working on refining this process to eliminate the gap between removing the meters and recording the retirement in its general ledger.